Paper – 18: Corporate Financial Reporting

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Full Marks : 100 **Time allowed: 3 hours**

Answer Question No. 1 (carrying 20 marks) which is compulsory and also answer any five questions (carrying 16 marks each) from Question No. 2 to Question No. 8.

1. Answer any four questions from the following: [4×5= 20]

(a) The fair value of plan assets of Prantick Ltd. was ₹2,00,000 in respect of employee benefit pension plan as on 1st April, 2015. On 30th September, 2015, the plan paid out benefits of ₹ 38,000 and received inward contributions of ₹ 98,000. On 31st March, 2016, the fair value of plan assets was ₹3,00,000. On 1st April, 2015, the reporting company made the following estimates, based on market studies and prevailing prices:

	%
Interest and dividend income after tax payable by the fund	9.25
Realised gains on plan assets (after tax)	2.00
Fund Administrative costs	(1.00)
Expected rate of return	10.25

Required:

Calculate the Actual and Expected Returns on Plan Assets as on 31st March, 2016, as per AS-15.

(b) Santro Ltd., acquired a patent at a cost of ₹ 1,10,00,000 for a period of 5 years and the product life-cycle is also 5 years. The company capitalized the cost and started amortizing the asset at ₹ 13,20,000 per annum. After two years it was found that the product life-cycle may continue for another 5 years from then. The net cash flows from the product during these 5 years were expected to be ₹ 35,00,000, ₹ 45,00,000, ₹ 48,00,000, ₹ 45,00,000 and ₹ 32,00,000. Find out the amortization cost of the patent for each of the years.

(c) What are the organisations that are subject to the audit of Comptroller and Auditor General of India ?

(d) A Ltd. had acquired 80% shares in the B Ltd. for ₹15 lakhs. The net assets of B Ltd. on that day are ₹22 lakhs. During the year, A Ltd. sold the investment for ₹30 lakhs and net assets of B Ltd. on the date of disposal were ₹35 lakhs. Calculate the profit or loss on disposal of this investment to be recognized in the Financial Statements of A Ltd.

(e) N Ltd. has 80% shares in a joint venture with SKLtd. N Ltd. sold a plant WDV ₹20 lakhs for ₹30 lakhs. Calculate how much profit N Ltd. should recognize in its book in case joint venture is: (a) jointly controlled operation; (b) jointly controlled asset; (c) jointly controlled entity.

2. Shiva Ltd. and Hari Ltd. decided to amalgamate as on 01.04.2016. Their Balance sheets as on 31.03.2016 were as follows: (₹ In '000)

Particulars	Shiva Ltd.	Hari Ltd.
Source of Funds:		
Equity share capital (₹ 10 each)	150	140
9% preference share capital (₹ 100 each)	30	20
Investment allowance reserve	5	2
Profit and Loss Account	10	6

10% Debentures	50	30
Sundry creditors	25	15
Tax provision	7	4
Equity dividend proposed	30	28
Total	307	245
Application of Funds:		
Building	60	50
Plant and Machinery	80	70
Investments	40	25
Sundry debtors	45	35
Stock	36	40
Cash and bank	40	25
Preliminary expenses	6	----
Total	307	245

From the following information, you are to prepare the draft balance sheet as on 01.04.2016 of a new company. Indra Ltd., which was formed to take over the business of both the companies and took over all the assets and liabilities:

(i) 50% Debentures are to be converted into equity shares of the New Company.
(ii) Out of the investments, 20% are non-trade investments.
(iii) Fixed Assets of Shivas Ltd. were valued at 10% above cost and that of Hari Ltd. at 5% above cost.
(iv) 10% of sundry debtors were doubtful for both the companies. Stocks to be carried at cost.
(v) Preference shareholders were discharged by issuing equal number of 9% preference share at par.
(vi) Equity shareholders of both the transferor companies are to be discharged by issuing equity shares of ₹ 10 each of the new company at a premium of ₹ 5 per share. Amalgamation is in the nature of purchase. **[16]**

3. On 31.03.2016 the Balance Sheets of H Ltd. and its subsidiary S Ltd. stood as follows:

(in ₹ Lakhs)

Liabilities	H Ltd.	S Ltd.	Assets	H Ltd.	S Ltd.
Share capital: Authorized	30,000	12,000	Land and Buildings	5,436	-
Issued and subscribed:			Plant and Machinery	9,810	9,800
Equity shares (₹ 10) Fully paid	24,000	9,600	Furniture and fittings	3,690	1,172
General reserve	5,568	2,760	Investments in shares in S Ltd.	6,000	-
Profit and loss account	5,430	3,240	Stock	7,898	3,912
Bills payable	744	320	Debtors	5,200	2,726
Sundry creditors	2,922	1,708	Cash and bank balances	2,980	408
Provision for taxation	1,710	788	Bills receivable	720	398
Proposed dividend	2,400	-	Sundry advances	1,040	-
	42,774	18,416		42,774	18,416

The following information is also provided to you:

1. H Ltd. purchased 360 lakhs shares in S Ltd. on 01.04.2015 when the balances to general reserve and Profit and Loss Account of S Ltd. stood at ₹ 6,000 lakhs and ₹ 2,400 lakhs respectively.
2. On 04.07.2015 S Ltd. declared a dividend @ 20% for the year ended 31.03.2015. H Ltd. credited the dividend received by it to its Profits and Loss Account.

3. On 01.01.2016 S Ltd. issued 3 fully piad –up shares for every 5 shares held as bonus shares out of balances in its general reserve as on 31.03.2015.
4. On 31.03.2016 all the bills payable in S Ltd's balance sheet were acceptances in favour of H Ltd. But on that date, H Ltd. held only ₹ 45 lakhs of these acceptances in hand, the rest having been endorsed in favour of its creditors.
5. On 31.03.2016 S Ltd., stock included goods which it had purchased for ₹ 200 lakhs form H Ltd. which made a profit @ 25% on cost.

Prepare a consolidated balance sheet of H Ltd. and its subsidiary S Ltd. as at 31.03.2016. **[16]**

4. **(a)** The following was the balance sheet of Mukta Ltd. as on 31st December:

Equity and Liabilities	₹
1. Shareholders Fund:	
(a) Share capital 24,000 shares of ₹ 10 each	2,40,000
Less: calls unpaid (₹ 3 per share on 6,000 sh)	(18,000)
(b) Reserves & Surplus – P & A/c	
As per Last B/Sheet (Loss b/fd) 44,000	
(Less) Profit for the year 2,400	(41,600)
2. Current Liabilities:	
(a) Trade Payables – sundry creditors	30,850
(b) short term provisions – provision for taxation	8,000
Total	2,19,250
Assets	
1. Non- current Assets:	
(a) fixed Assets:	
(i) Tangible Assets	
- Land & Buildings	41,000
- Machinery	1,01,700
(ii) Intangible Assets – goodwill	20,000
(b) Other non-current Assets	
- Preliminary expenses	3,000
2. Current Assets:	
(a) Inventories	20,550
(b) Trade receivables – book debts	30,000
(c) Cash & cash equivalents	3,000
Total	2,19,250

Note: Authorized Capital is ₹4,00,000 being 40,000 equity shares of ₹ 10 each.

The directors have had a valuation made for the Machinery and find it overvalued by ₹ 20,000. It is proposed to write down this asset to its true value and to extinguish the deficiency in the Profit and Loss Account and to write off goodwill and preliminary expanses, by adoption of the following course –

(i) Forfeit the shares on which the calls outstanding.
(ii) Reduce the paid-up capital by ₹ 3 per share.
(iii) Reissue the forfeited shares at ₹ 5 per share.
(iv) Utilize the provision for taxes, if necessary.

The shares on which the calls were in arrears were duly forfeited and reissued on payment of ₹ 5 per share. Give the journal entries and the Balance Sheet of the company after carrying out the above scheme. **[10]**

(b) Mayank buys the following Equity index option and the seller/writer of this option is Shiva:

Date of buy	28th March, 2016
Type of options	S & P CNX NIFTY- call
Expiry date	31st May, 2016

Premium per unit	₹ 21
Contract multiplier (No. of units)	2,500
Margin per unit	₹180
Strike price	₹ 920

Margin calculated by SPAN is as follows:
On, 29.03.2016 is ₹ 5,00,000; On 30.03.2016 is ₹ 3,50,000; On 31.03.2016 is ₹ 4,10,000;
On 31.3.2016 the prevailing premium rate for the above option is ₹ 16 per unit.
Give the accounting treatment in the books of both the parties. **[6]**

5. **(a)** A company Amrit Ltd. announced a stock Appreciation Right on 01.04.11 for each of its 500 employees. The scheme gives the employees the right to claim cash payment equivalent to excess on market price of company's shares on exercise date over the exercise price ₹125 per share in respect of 100 shares, subject to condition of continuous employment for 3 years. The SAR is exercisable after 31.03.14 but before 30.06.14. The fair value of SAR was ₹ 21 in 2011 – 12, ₹ 23 in 2012-13 and ₹ 24 in 2013-14. In 2011-12 the company estimates that 2% of the employees shall leave the company annually. This was revised to 3% in 2012-13. Actually, 18 employees left the company in 2011-12, 5 left in 2012-13 and 3 left in 2013-14. The SAR therefore actually vested to 482 employees. On 30/0614. When the SAR was exercised, the intrinsic value was ₹ 25 per share.
Show provision for SAR A/c by fair value method. **[8]**

(b) Compute EVA of Vikram Ltd. for 3 years from the information given -

(in ₹ Lakhs)

Year	1	2	3
Average Capital Employed	₹3,000.00	₹3,500.00	₹4,000.00
Operating Profit before Interest (adjusted for Tax Effect)	₹850.00	₹1,250.00	₹1,600.00
Corporate Income Taxes	₹80.00	₹70.00	₹120.00
Average Debt ÷ Total Capital Employed (in %)	40.00	35.00	13.00
Beta Variant	1.10	1.20	1.30
Risk Free Rate (%)	12.50	12.50	12.50
Equity Risk Premium (%)	10.00	10.00	10.00
Cost of Debt (Post Tax) (%)	19.00	19.00	20.00

[8]

6. **(a)** A company purchased a plant for ₹ 40 lakhs during the financial year and installed it immediately. The price charged by the vendor included excise duty (CENVAT credit available) of ₹ 4 lakhs. During this year, the company also produced excisable goods on which excise duty chargeable is ₹ 4.00 lakhs. Show the journal entries describing CENVAT credit treatment. At what amount should the plant be capitalized? **[8]**

(b) Discuss the advantages of preparation of Value Added (VA) Statements. **[8]**

7. **(a)** Discuss the method of Government Accounting. **[8]**

(b) Discuss the standard setting procedure of GASAB. **[8]**

8. **(a)** Most Neglected Ltd. furnishes you the following Balance Sheet as at 31st March, 2016

Particular	₹	₹
Sources of Funds:		
Shareholders Funds		200
Share capital: Authorized		
Issued: Equity Shares of ₹ 10 each fully paid	50	
12% Redeemable Preference Shares of ₹ 100 each fully paid	150	200
Reserves and surplus: Capital Reserve	30	
Securities Premium	50	

Revenue reserves	520	600
Total		800
Application of Fund: Non-current Assets: Cost Les: provision for depreciation Investments at cost (Market value ₹ 400 crores) Net current Assets: Current Assets Less: Current Liabilities	 200 200 680 80	 Nil 200 600
Total		800

The company redeemed its Preference Shares on 1st April, 2016. It also bought back 100 lakh equity shares of ₹ 10 each at ₹ 50 per share. The payments for the above were made out of the substantial Bank Balances, which appeared as part of Current Assets. You are required to –

- Prepare the company's balance sheet after the above transactions.
- Value the equity shares on net assets basis. **[10]**

(b) From the following details, compute the total value of human resources of skilled group of employees according to Lev and Schwartz (1971) model: **[6]**

	Skilled
(i) Annual average earning of an employee till the retirement age.	₹ 60,000
(ii) Age of retirement	65 years
(iii) Discount rate	15%
(iv)No. of employees in the group	30
(v) Average age	62 years